

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>	Printed Name		License Number	

# **CITY OF VASSAR**

Tuscola County, Michigan

## **FINANCIAL STATEMENTS**

June 30, 2006

# CITY OF VASSAR

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**BERTHIAUME  
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Certified Public Accountants



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## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and Members of City Council  
City of Vassar, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Vassar's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2006, on our consideration of the City of Vassar's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, schedule of pension plan funding progress and budgetary comparison schedule are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Vassar's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Berthiaume & Co.*

September 21, 2006

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Overview of the Financial Statements

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

### Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

***Governmental Activities*** – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, State-shared revenue, charges for services, grants, and transfers provide much of the funding.

***Business-type Activities*** – The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are included here.

***Component Units*** – The City includes the Economic Development Corporation and the Downtown Development Authority in its report.

### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

***Governmental Funds*** – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Proprietary Funds** – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short- and long-term financial information.

**Fiduciary Funds** – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

### Financial Highlights

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$11,531,995 (net assets), a decrease of \$248,496 from the previous year. Of the \$11,531,995 reported in net assets, \$2,593,825 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.
- Net assets of our governmental activities decreased \$213,481 and net assets of our business-type activities decreased \$35,015.
- Unrestricted net assets for governmental activities are 41 percent of expenses. Unrestricted net assets for business-type activities exceed expenses.
- The General Fund reported a net decrease in fund balance of \$29,553 for the year. This resulted in a year end fund balance of \$531,971. Of this fund balance, \$476,047 is unreserved and undesignated, or 31 percent of General Fund expenditures.
- The City's investment portfolio of certificates of deposit continued to provide positive results for the total interest revenue received in fiscal year 2006. Interest earnings across all funds for this fiscal year totaled \$132,648, which is an increase of 125.64% over fiscal year 2005 interest earnings of \$58,787.
- The taxable value of the city's residential property in the current fiscal year was \$41,586,599, following the March Board of Review. This was a 5.04% increase over the fiscal year 2005 taxable values. The city's future increases in residential property values are expected to be insignificant in the near future since residential property sales have dropped off dramatically in the real estate market in Michigan.

### The City as a Whole

The City's combined net assets are \$11,531,995 as of June 30, 2006. Business-type activities make up \$7,013,169 and governmental activities make up \$4,518,826 of the total. A comparative condensed statement of net assets and comparative condensed statement of activities are shown below.

### City of Vassar – Net Assets

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$11,531,995 (net assets). However, a major portion (71 percent) of the City's net assets represents its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Unrestricted net assets of the City of \$2,593,825 at the end of this year represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Furthermore, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following is a comparative condensed statement of net assets at June 30, 2006 and 2005:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
<b>Assets:</b>						
Current and other assets	\$ 1,637,484	\$ 1,612,010	\$ 1,944,957	\$ 1,837,283	\$ 3,582,441	\$ 3,449,293
Capital assets	<u>3,296,207</u>	<u>3,485,787</u>	<u>6,752,210</u>	<u>7,031,822</u>	<u>10,048,417</u>	<u>10,517,609</u>
Total assets	<u>4,933,691</u>	<u>5,097,797</u>	<u>8,697,167</u>	<u>8,869,105</u>	<u>13,630,858</u>	<u>13,966,902</u>
<b>Liabilities:</b>						
Long-term liabilities	327,358	330,789	1,641,383	1,797,973	1,968,741	2,128,762
Other liabilities	<u>87,507</u>	<u>34,701</u>	<u>42,615</u>	<u>22,948</u>	<u>130,122</u>	<u>57,649</u>
Total liabilities	<u>414,865</u>	<u>365,490</u>	<u>1,683,998</u>	<u>1,820,921</u>	<u>2,098,863</u>	<u>2,186,411</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	3,014,764	3,196,888	5,137,210	5,256,822	8,151,974	8,453,710
Restricted	575,119	565,947	211,077	209,094	786,196	775,041
Unrestricted	<u>928,943</u>	<u>969,472</u>	<u>1,664,882</u>	<u>1,582,268</u>	<u>2,593,825</u>	<u>2,551,740</u>
Total net assets	<u>\$ 4,518,826</u>	<u>\$ 4,732,307</u>	<u>\$ 7,013,169</u>	<u>\$ 7,048,184</u>	<u>\$ 11,531,995</u>	<u>\$ 11,780,491</u>

# CITY OF VASSAR

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes in net assets for 2006 and 2005:

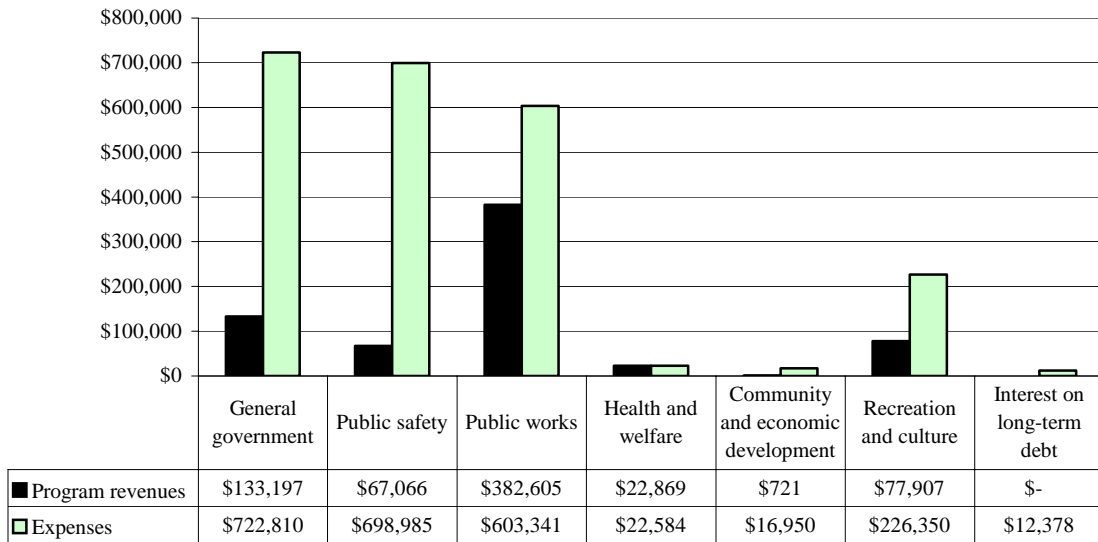
	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 384,770	\$ 441,105	\$ 996,485	\$ 1,002,809	\$ 1,381,255	\$ 1,443,914
Operating grants/contributions	278,712	449,953	237	59,463	278,949	509,416
Capital grants/contributions	20,883	86,380	-	-	20,883	86,380
General revenues					-	-
Property taxes	956,982	857,034	-	-	956,982	857,034
Other taxes	9,105	9,506	-	-	9,105	9,506
State revenue sharing - sales tax	370,961	375,135	-	-	370,961	375,135
Investment earnings	57,923	33,255	62,224	30,499	120,147	63,754
Miscellaneous	20,889	72,246	-	-	20,889	72,246
Total revenues	2,100,225	2,324,614	1,058,946	1,092,771	3,159,171	3,417,385
<b>Expenses:</b>						
General government	722,810	639,205	-	-	722,810	639,205
Public safety	698,985	743,660	-	-	698,985	743,660
Public works	603,341	682,015	-	-	603,341	682,015
Health and welfare	22,584	22,584	-	-	22,584	22,584
Community and economic development	16,950	29,904	-	-	16,950	29,904
Recreation and culture	226,350	245,815	-	-	226,350	245,815
Interest on long-term debt	12,378	9,389	-	-	12,378	9,389
Sewer	-	-	719,885	693,066	719,885	693,066
Water	-	-	386,134	391,119	386,134	391,119
Total expenses	2,303,398	2,372,572	1,106,019	1,084,185	3,409,417	3,456,757
Excess (deficiency) of revenues over expenses	(203,173)	(47,958)	(47,073)	8,586	(250,246)	(39,372)
<b>Other Items:</b>						
Contributions to principal of permanent funds	1,750	2,500	-	-	1,750	2,500
Special item - Sale of capital assets	-	7,515	-	-	-	7,515
Transfers	(12,058)	22,490	12,058	(22,490)	-	-
	(10,308)	32,505	12,058	(22,490)	1,750	10,015
<b>Change in net assets</b>	(213,481)	(15,453)	(35,015)	(13,904)	(248,496)	(29,357)
Net assets, beginning of year	4,732,307	4,747,760	7,048,184	7,062,088	11,780,491	11,809,848
Net assets, end of year	\$ 4,518,826	\$ 4,732,307	\$ 7,013,169	\$ 7,048,184	\$ 11,531,995	\$ 11,780,491

## MANAGEMENT'S DISCUSSION AND ANALYSIS

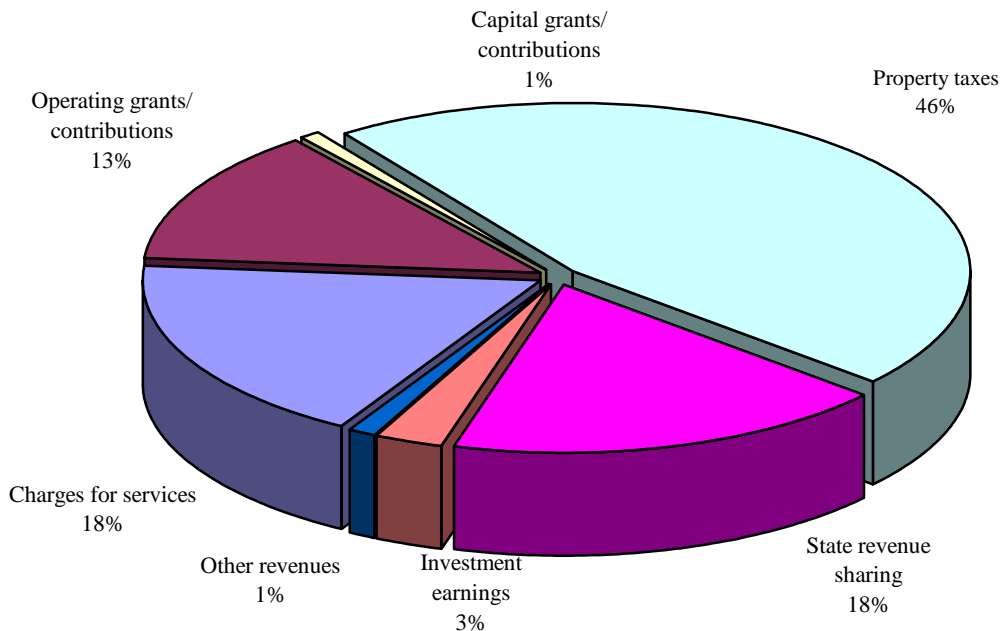
### Governmental Activities

For the year ended June 30, 2006, revenues for the City's governmental activities totaled \$2,100,225. Property taxes accounted for 46 percent of the total revenues, or \$956,982. State revenue sharing was 18 percent, or \$370,961; these revenues continue to be a concern as to future funding levels.

#### Program Revenues and Expenses Governmental Activities



#### Revenue by Source Governmental Activities

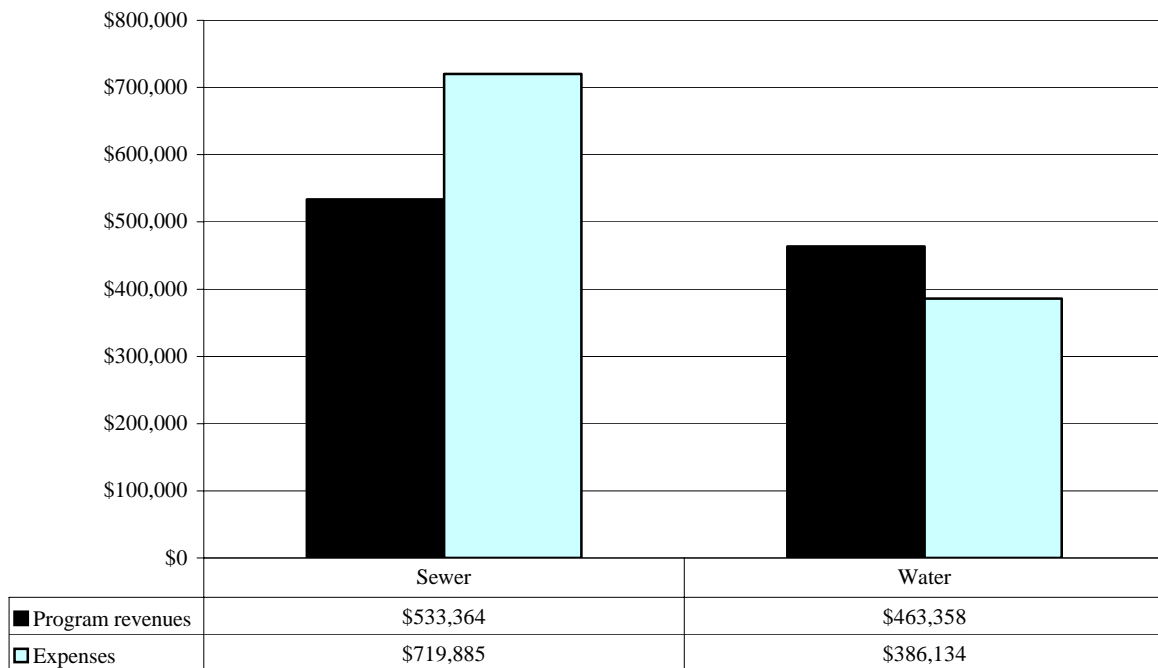


## MANAGEMENT'S DISCUSSION AND ANALYSIS

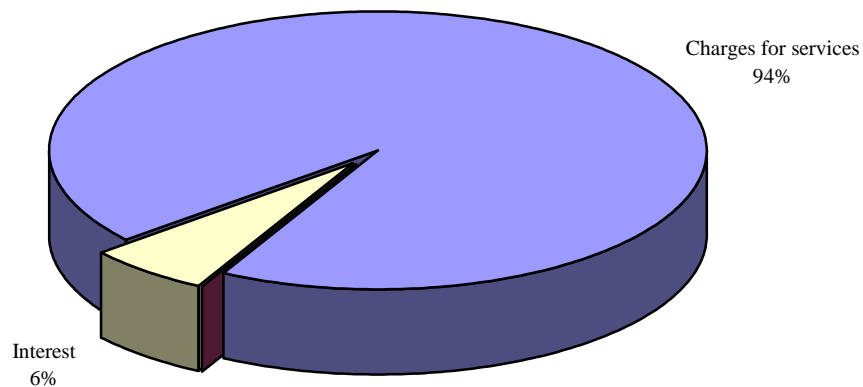
### Business-type Activities

For the year ended June 30, 2006, revenues for business-type activities were \$1,058,946. Charges for services were 94 percent of gross revenues, or \$996,485.

### Program Revenues and Expenses Business-type Activities



### Revenue by Source Business-type Activities



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City has two business type-activities: the sewer and water systems. In total, these two activities generated \$996,485 in charges for services, and incurred \$1,106,019 in expenses. In addition, general revenues for business-type activities were \$62,224. The City's business-type activities experienced a decrease in net assets of \$35,015 for the year after a transfer of funds of \$12,058.

### Capital Assets and Debt Administration

At the end of the fiscal year 2006, the City has \$17,218,208 invested, before depreciation, in a wide range of capital assets, including land, buildings and improvements, vehicles, furniture and equipment, and sewer and water distribution systems.

Debt of \$281,442 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets.

Debt related to the sewer and water systems totaling \$1,615,000 is recorded as a liability in the business-type activities in the statement of net assets.

### The City's Funds

The fund financial statements provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities. The City's major governmental fund for 2006 is the General Fund.

The City's governmental funds reported combined fund balance of \$1,371,478 for this year, a decrease of \$9,290 from last year.

### General Fund Budgetary Highlights

The City's General Fund experienced a net decrease in fund balance for the second consecutive year due to continued increases in operating costs. As a result of the economic fluctuations in the marketplace, the city administration reviews the adopted budget on a quarterly basis to monitor revenue and expenditure levels throughout the fiscal year. This enables the administration to react to unforeseen cost increases and variations in anticipated revenue sources in the budget in a timely manner. Quarterly budget amendments are prepared following the budget review and presented to the city council for approval.

There were several factors that impacted the General Fund in this fiscal year. The significant items include the following:

- **Total Revenue:** The city experienced a minimal increase of 1.10% in total revenue earned in fiscal year 2006 over the original budget amount.
- **Total Expenditures:** Meanwhile, total expenditures increased a total of 5.22% above the original budgeted total.
- **Interfund Transfers:** In addition to the aforementioned factors, interfund transfers from the General Fund increased by 6.06% to respond to the financial needs of other funds responsible for providing city services.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- **State Revenue Sharing:** Once again, the State of Michigan reduced the amount of State Revenue Sharing to the city. Our revenue sharing total in the fiscal year was reduced by 1.12% over the total received in fiscal year 2005. Though this only accounted for a reduction of \$5,368 in our budgeted revenue, this marked the fifth consecutive fiscal year that the city has experienced a reduction in state revenue sharing funds; which equates to a total 20.74% reduction in revenue in this time period.
- **Interest Revenue:** The city's investment strategy for the year provided continued improvement in interest earnings. The General Fund benefited from this strategy, earning a total of \$28,313 in interest, which is a 100.74% increase in interest earnings over the previous fiscal year.
- **Personnel Costs:** Personnel costs continue to be a primary concern for the city's budget. Fringe benefit costs continue to increase at a rate greater than the rate of inflation. Health insurance premiums increases and employer retirement contributions to MERS have been steadily increasing over the past five years. The city will be undertaking a thorough review of personnel costs in the upcoming fiscal year in an effort to curb these costs as much as possible.
- **Capital Outlay:** The city leased two new police vehicles from Ford Motor Credit in fiscal year 2006. The acquisition of these patrol units also included the purchase of operating equipment to fit the interior of the new model of vehicles, which had not been budgeted at the beginning of the fiscal year.
- **Economic Development:** The General Fund absorbed the cost of employee hours worked and some beginning construction costs on a joint economic development and rehabilitation project in downtown Vassar. This project was undertaken through the cooperative efforts of the Downtown Development Authority and the Economic Development Corporation. City employees worked to secure a deteriorating building in the downtown district in order for the DDA and EDC to begin the restoration process.

### Economic Factors

The City of Vassar's economic future is currently dependent upon many factors that are beyond the control of the city council and administration. The downturn in the automotive industry combined with the restructuring of that industry not only affected our current revenue stream but it will have a significant impact on the city's financial future.

A dramatic reduction in the city's industrial base was experienced when two of our local automotive parts manufacturing facilities closed their doors in the middle of the fiscal year. More than 100 jobs were lost from the workforce and anticipated revenues from the personal property tax roll have to be removed from our future budgets due to the closure of these industrial facilities. In addition to the reduction in tax revenue, the city's utilities revenue was impacted by the reduction in production at the remaining industrial businesses that are in operation in the city.

The budgets of all city funds have been impacted by the noticeable increases in the price of natural gas, electricity, and petroleum products used in our daily operations. As the prices for these energy sources continue to climb, the city will have to look for ways to reduce our energy consumption.

The increase in fuel costs has rippled throughout the economy causing price increase for many of the goods and services we purchased in fiscal year 2006. This is because the cost of delivering such goods and services to the city has increased for our suppliers and they have passed those costs along to the end users.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The city administration has been able to maintain stable fund balance amounts in the city's funds in spite of these fluctuations. At the same time, the staff is also aware that the long-term financial health of these funds will be contingent upon cost-saving measures being implemented in the near future.

Lastly, we are anticipating a county drain improvement project on the Moore Drain slated to be completed in fiscal year 2007. This project will bring about improvements to mitigate the city's flooding problems and has the potential to breathe new life into the city's economy and our downtown business district. At the same time, this project will create a 20-year debt obligation to the city for its portion of the project costs. The future of the overall economy will play a part in the budgeting process as we prepare to pay for our portion of this project and other areas of services we provide as a municipality.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact, 287 E. Huron Avenue, Vassar, Michigan 48768.

## ***BASIC FINANCIAL STATEMENTS***



## STATEMENT OF NET ASSETS

June 30, 2006

	<i>Primary Government</i>			<i>Component Units</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,260,203	\$ 1,521,783	\$ 2,781,986	\$ 76,305
Receivables	346,717	145,555	492,272	33,849
Internal balances	-	-	-	-
Inventory	5,400	-	5,400	-
Prepaid expenses	25,164	5,191	30,355	-
Restricted cash and cash equivalents	-	211,077	211,077	-
Capital assets:				
Nondepreciable capital assets	526,669	43,009	569,678	46,101
Depreciable capital assets, net	2,769,538	6,709,201	9,478,739	79,845
Other assets	-	61,351	61,351	-
Total assets	<u>4,933,691</u>	<u>8,697,167</u>	<u>13,630,858</u>	<u>236,100</u>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	87,507	42,615	130,122	26,960
Long-term liabilities:				
Due within one year	54,983	175,000	229,983	-
Due in more than one year	<u>272,375</u>	<u>1,466,383</u>	<u>1,738,758</u>	<u>-</u>
Total liabilities	<u>414,865</u>	<u>1,683,998</u>	<u>2,098,863</u>	<u>26,960</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	3,014,764	5,137,210	8,151,974	125,946
Restricted for:				
Debt service	-	194,000	194,000	-
Streets	459,210	-	459,210	-
Nonexpendable cemetery principal	115,909	-	115,909	-
Replacement	-	17,077	17,077	-
Unrestricted	<u>928,943</u>	<u>1,664,882</u>	<u>2,593,825</u>	<u>83,194</u>
Total net assets	<u>\$ 4,518,826</u>	<u>\$ 7,013,169</u>	<u>\$ 11,531,995</u>	<u>\$ 209,140</u>

*The accompanying notes are an integral part of these financial statements.*

# CITY OF VASSAR

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Functions/Programs					
PRIMARY GOVERNMENT:					
Governmental activities:					
General government	\$ 722,810	\$ 132,997	\$ 200	\$ -	\$ (589,613)
Public safety	698,985	64,896	2,170	-	(631,919)
Public works	603,341	107,396	254,326	20,883	(220,736)
Health and welfare	22,584	22,869	-	-	285
Community and economic development	16,950	721	-	-	(16,229)
Recreation and culture	226,350	55,891	22,016	-	(148,443)
Interest on long-term debt	12,378	-	-	-	(12,378)
Total governmental activities	2,303,398	384,770	278,712	20,883	(1,619,033)
Business-type activities:					
Sewer	719,885	533,281	83	-	(186,521)
Water	386,134	463,204	154	-	77,224
Total business-type activities	1,106,019	996,485	237	-	(109,297)
Total primary government	\$ 3,409,417	\$ 1,381,255	\$ 278,949	\$ 20,883	\$ (1,728,330)
COMPONENT UNITS:					
Economic development corporation	\$ 112,954	\$ -	\$ -	\$ 25,000	\$ (87,954)
Downtown development authority	36,211	14,466	-	39,922	18,177
Total component units	\$ 149,165	\$ 14,466	\$ -	\$ 64,922	\$ (69,777)

continued

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-</i>		<i>Component</i>
	<i>Activities</i>	<i>type</i>	<i>Total</i>	<i>Units</i>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Units</u>
Changes in net assets				
Net (Expense) Revenue	\$ (1,619,033)	\$ (109,297)	\$ (1,728,330)	\$ (69,777)
<b>General revenues:</b>				
Taxes:				
Property taxes, levied for general purpose	884,259	-	884,259	-
Property taxes, levied by County for streets	72,723	-	72,723	-
Property taxes, captured by component units	-	-	-	72,207
Payment in lieu of property taxes	1,542	-	1,542	-
Franchise taxes	7,563	-	7,563	-
Grants and contributions not restricted to specific programs	370,961	-	370,961	-
Unrestricted investment earnings	57,923	62,224	120,147	1,519
Miscellaneous	20,889	-	20,889	-
Contributions to principal of permanent funds	1,750	-	1,750	-
Transfers	(12,058)	12,058	-	-
Total general revenues	<u>1,405,552</u>	<u>74,282</u>	<u>1,479,834</u>	<u>73,726</u>
Change in net assets	(213,481)	(35,015)	(248,496)	3,949
Net assets, beginning of year	<u>4,732,307</u>	<u>7,048,184</u>	<u>11,780,491</u>	<u>205,191</u>
Net assets, end of year	<u>\$ 4,518,826</u>	<u>\$ 7,013,169</u>	<u>\$ 11,531,995</u>	<u>\$ 209,140</u>

# CITY OF VASSAR

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## GOVERNMENTAL FUNDS

### BALANCE SHEET

June 30, 2006

	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>Assets:</b>			
Cash and cash equivalents	\$ 415,842	\$ 809,865	\$ 1,225,707
Taxes receivable	19,733	-	19,733
Accounts receivable	25,915	1,622	27,537
Special assessments receivable	-	4,238	4,238
Notes receivable	42,558	83,992	126,550
Accrued interest receivable	1,508	5,566	7,074
Due from other governmental units	121,158	40,427	161,585
Due from other funds	-	1,000	1,000
Inventory	5,400	-	5,400
Prepaid expenditures	18,258	6,906	25,164
Total assets	<u>\$ 650,372</u>	<u>\$ 953,616</u>	<u>\$ 1,603,988</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 54,388	\$ 24,879	\$ 79,267
Due to other governmental units	1,722	-	1,722
Due to other funds	-	1,000	1,000
Deferred revenue	62,291	88,230	150,521
Total liabilities	<u>118,401</u>	<u>114,109</u>	<u>232,510</u>
<b>Fund balances:</b>			
Reserved for:			
Inventory	5,400	-	5,400
Prepaid expenditures	18,258	6,906	25,164
Nonexpendable cemetery principal	-	115,909	115,909
Unreserved:			
Designated, reported in:			
General fund	32,266	-	32,266
Undesignated, reported in:			
General fund	476,047	-	476,047
Special revenue funds	-	716,692	716,692
Total fund balances	<u>531,971</u>	<u>839,507</u>	<u>1,371,478</u>
Total liabilities and fund balances	<u>\$ 650,372</u>	<u>\$ 953,616</u>	<u>\$ 1,603,988</u>

*The accompanying notes are an integral part of these financial statements.*

## RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2006

**Total fund balances for governmental funds** \$ 1,371,478

Total net assets reported for governmental activities in the statement of  
of net assets is different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the governmental funds.

Governmental capital assets	5,126,215	
Less accumulated depreciation	<u>(1,830,008)</u>	3,296,207

Interest payable in the governmental activities are not payable from  
current resources and therefore are not reported in the governmental  
funds. (6,518)

Deferred revenues reported in the governmental funds are recognized as  
revenues for the governmental activities. 150,521

Long-term liabilities are not due and payable in the current year and  
therefore are not reported in the governmental funds:

Capital leases and loans payable	(281,443)	
Compensated absences payable	<u>(45,915)</u>	(327,358)

The assets and liabilities of internal service funds are included in governmental  
activities in the statement of net assets. 34,496

**Net assets of governmental activities** \$ 4,518,826

*The accompanying notes are an integral part of these financial statements.*

# CITY OF VASSAR

## GOVERNMENTAL FUNDS

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>Revenues:</b>			
Property taxes	\$ 882,508	\$ 72,723	\$ 955,231
Licenses and permits	10,553	-	10,553
State grants	374,328	254,303	628,631
Contributions from other units	4,860	84,755	89,615
Charges for services	396,827	44,864	441,691
Fines and forfeits	13,013	-	13,013
Interest and rents	39,671	43,369	83,040
Other revenue	89,538	50,856	140,394
Total revenues	<u>1,811,298</u>	<u>550,870</u>	<u>2,362,168</u>
<b>Expenditures:</b>			
Current			
General government	552,521	69,058	621,579
Public safety	569,144	107,145	676,289
Public works	251,021	418,673	669,694
Health and welfare	22,584	-	22,584
Community and economic development	8,209	-	8,209
Recreation and culture	11,000	235,172	246,172
Other	17,012	-	17,012
Capital outlay	71,063	7,905	78,968
Debt service			
Principal	48,582	6,000	54,582
Interest and fees	6,274	5,163	11,437
Total expenditures	<u>1,557,410</u>	<u>849,116</u>	<u>2,406,526</u>
Excess (deficiency) of revenues over expenditures	<u>253,888</u>	<u>(298,246)</u>	<u>(44,358)</u>
<b>Other financing sources (uses):</b>			
Proceeds from capital lease	47,126	-	47,126
Transfers in	-	334,710	334,710
Transfers out	(330,567)	(16,201)	(346,768)
Total other financing sources and (uses)	<u>(283,441)</u>	<u>318,509</u>	<u>35,068</u>
Net change in fund balances	(29,553)	20,263	(9,290)
Fund balances, beginning of year	<u>561,524</u>	<u>819,244</u>	<u>1,380,768</u>
Fund balances, end of year	<u>\$ 531,971</u>	<u>\$ 839,507</u>	<u>\$ 1,371,478</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF VASSAR

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## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

**Net change in fund balances - total governmental funds** \$ (9,290)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	79,694	
Less depreciation expense	(264,080)	
Less loss on disposal of assets	<u>(5,194)</u>	(189,580)

Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenue in the funds. (18,268)

Loan proceeds are revenue in governmental funds, but the proceeds increase long-term liabilities in the statement of net assets. (47,126)

Repayments of principal on capital leases and contracts is an expenditure in governmental funds, but the payment reduces long-term liabilities in the statement of net assets. 54,582

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	(941)	
Change in accrued interest on leases and loans payable	<u>(4,025)</u>	(4,966)

The net revenue (expense) of the internal service fund is reported with governmental activities. 1,167

**Change in net assets of governmental activities** \$ (213,481)

*The accompanying notes are an integral part of these financial statements.*

# CITY OF VASSAR

## PROPRIETARY FUNDS STATEMENT OF NET ASSETS

June 30, 2006

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Self Insurance Fund</i>
<b>Assets:</b>				
<b><i>Current Assets:</i></b>				
Cash and cash equivalents	\$ 636,377	\$ 885,406	\$ 1,521,783	\$ 34,496
Accounts receivable	50,926	42,633	93,559	-
Special assessments receivable	15,620	29,009	44,629	-
Accrued interest receivable	4,228	3,139	7,367	-
Prepaid expenses	4,425	766	5,191	-
Total current assets	711,576	960,953	1,672,529	34,496
<b><i>Noncurrent assets:</i></b>				
Restricted cash and cash equivalents	125,796	85,281	211,077	-
Capital assets:				
Nondepreciable capital assets	33,422	9,587	43,009	-
Depreciable capital assets, net	5,227,951	1,481,250	6,709,201	-
Deferred financing costs	26,249	35,102	61,351	-
Total noncurrent assets	5,413,418	1,611,220	7,024,638	-
Total assets	6,124,994	2,572,173	8,697,167	34,496
<b>Liabilities:</b>				
<b><i>Current Liabilities:</i></b>				
Accounts payable	16,760	5,647	22,407	-
Accrued interest payable	11,397	8,811	20,208	-
Current portion of long-term debt	98,694	76,306	175,000	-
Total current liabilities	126,851	90,764	217,615	-
<b><i>Noncurrent liabilities:</i></b>				
Compensated absences payable	12,725	13,658	26,383	-
Long-term debt	812,108	627,892	1,440,000	-
Total noncurrent liabilities	824,833	641,550	1,466,383	-
Total liabilities	951,684	732,314	1,683,998	-
<b>Net assets:</b>				
Invested in capital assets, net of related debt	4,350,571	786,639	5,137,210	-
Restricted for:				
Debt service	108,719	85,281	194,000	-
Replacement	17,077	-	17,077	-
Unrestricted	696,943	967,939	1,664,882	34,496
Total net assets	\$ 5,173,310	\$ 1,839,859	\$ 7,013,169	\$ 34,496

The accompanying notes are an integral part of these financial statements.



# CITY OF VASSAR

## *PROPRIETARY FUNDS* **STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

Year Ended June 30, 2006

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Self Insurance Fund</i>
<b>Operating revenues:</b>				
Charges for services	\$ 524,884	\$ 448,049	\$ 972,933	\$ -
Penalties	-	13,085	13,085	-
Other	8,397	2,070	10,467	-
Total operating revenues	533,281	463,204	996,485	-
<b>Operating expenses:</b>				
Personnel	193,408	69,532	262,940	-
Fringe benefits	71,029	15,735	86,764	-
Supplies	27,766	30,037	57,803	-
Contracted services	2,702	2,998	5,700	-
Administrative expense	22,000	16,000	38,000	-
Telephone	5,148	11,618	16,766	-
Fees and permits	3,214	1,484	4,698	-
Conference and travel	706	697	1,403	-
Insurance	16,255	2,928	19,183	95
Utilities	66,251	41,656	107,907	-
Repair and maintenance	27,762	78,047	105,809	-
Equipment rental	3,309	18,208	21,517	-
Depreciation	228,287	55,175	283,462	-
Total operating expenses	667,837	344,115	1,011,952	95
Operating income (loss)	(134,556)	119,089	(15,467)	(95)
<b>Non-operating revenues (expenses):</b>				
Interest income	29,693	32,531	62,224	1,262
Special assessments	83	154	237	-
Interest expense	(52,048)	(42,019)	(94,067)	-
Total non-operating revenues (expenses)	(22,272)	(9,334)	(31,606)	1,262
Net income (loss) before operating transfers	(156,828)	109,755	(47,073)	1,167
<b>Operating transfers:</b>				
Transfer to other funds	12,058	-	12,058	-
Net income (loss)	(144,770)	109,755	(35,015)	1,167
Net assets, beginning of year	5,318,080	1,730,104	7,048,184	33,329
Net assets, end of year	\$ 5,173,310	\$ 1,839,859	\$ 7,013,169	\$ 34,496

*The accompanying notes are an integral part of these financial statements.*

# CITY OF VASSAR

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Self Insurance Fund</i>
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 534,004	\$ 448,708	\$ 982,712	\$ -
Cash received from interfund services	1,839	2,593	4,432	-
Cash payments to employees	(191,677)	(67,853)	(259,530)	-
Cash payments to suppliers for goods and services	(232,562)	(215,806)	(448,368)	(95)
Net cash provided (used) by operating activities	111,604	167,642	279,246	(95)
<b>Cash flows from non-capital financing activities:</b>				
Operating transfers in	12,058	-	12,058	-
Net cash provided by capital financing activities	12,058	-	12,058	-
<b>Cash flows from capital and related financing activities:</b>				
Special assessments interest	83	154	237	-
Acquisition and construction of capital assets	(2,704)	(1,146)	(3,850)	-
Principal payments	(90,234)	(69,766)	(160,000)	-
Interest paid	(52,048)	(42,019)	(94,067)	-
Amortization of deferred financing costs	3,151	4,214	7,365	-
Net cash used by capital and related financing activities	(141,752)	(108,563)	(250,315)	-
<b>Cash flows from investing activities:</b>				
Interest received	29,693	32,531	62,224	1,262
Net cash provided by investing activities	29,693	32,531	62,224	1,262
Net increase in cash and cash equivalents	11,603	91,610	103,213	1,167
Cash and cash equivalents, beginning of year	750,570	879,077	1,629,647	33,329
Cash and cash equivalents, end of year	\$ 762,173	\$ 970,687	\$ 1,732,860	\$ 34,496

continued

The accompanying notes are an integral part of these financial statements.

## *PROPRIETARY FUNDS* **STATEMENT OF CASH FLOWS, CONTINUED**

Year Ended June 30, 2006

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Self Insurance Fund</i>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (134,556)	\$ 119,089	\$ (15,467)	\$ (95)
Adjustments:				
Depreciation	228,287	55,175	283,462	-
Change in assets and liabilities:				
Accounts receivable	1,620	(17,784)	(16,164)	-
Special assessments receivable	1,161	2,155	3,316	-
Accrued interest receivable	(2,058)	1,133	(925)	-
Due from other funds	1,839	2,593	4,432	-
Prepaid expenses	(1,236)	806	(430)	-
Accounts payable	16,760	5,412	22,172	-
Accrued expenses	(665)	-	(665)	-
Due to other funds	(242)	(1,813)	(2,055)	-
Accrued interest payable	(1,037)	(803)	(1,840)	-
Compensated absences payable	1,731	1,679	3,410	-
Net cash provided (used) by operating activities	<u>\$ 111,604</u>	<u>\$ 167,642</u>	<u>\$ 279,246</u>	<u>\$ (95)</u>

*The accompanying notes are an integral part of these financial statements.*

# CITY OF VASSAR

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*FIDUCIARY FUNDS*  
**STATEMENT OF NET ASSETS**  
June 30, 2006

	<i>Private Purpose Trust Funds</i>	<i>Agency Funds</i>	<i>Total</i>
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,680	\$ 22,460	\$ 25,140
Total assets	<u>2,680</u>	<u>22,460</u>	<u>25,140</u>
<b>Liabilities:</b>			
Accounts payable	-	22,460	22,460
Total liabilities	<u>-</u>	<u>22,460</u>	<u>22,460</u>
<b>Net Assets:</b>			
Held in trust	<u>2,680</u>	<u>-</u>	<u>2,680</u>
Total net assets	<u>\$ 2,680</u>	<u>\$ -</u>	<u>\$ 2,680</u>

*The accompanying notes are an integral part of these financial statements.*

*FIDUCIARY FUNDS*  
**STATEMENT OF CHANGES IN NET ASSETS**  
Year Ended June 30, 2006

	<i>Private Purpose Trust Funds</i>
<b>Additions:</b>	
Investment income	\$ 106
Total additions	<u>106</u>
<b>Deductions:</b>	
Supplies	225
Contribution to General Fund	<u>180</u>
Total deductions	<u>405</u>
Net increase (decrease)	(299)
Net assets, beginning of year	<u>2,979</u>
Net assets, end of year	<u><u>\$ 2,680</u></u>

*The accompanying notes are an integral part of these financial statements.*

***NOTES TO FINANCIAL STATEMENTS***

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The City of Vassar was incorporated in 1945 and is located in Tuscola County, Michigan. The City is organized under Michigan's Comprehensive Home Rule City Act. City government is directed by a five member City Council elected by the community at large. The legislative body selects from among its members the Mayor and appoints a City Manager to administer the affairs of the City. The City provides the following services to approximately 2,800 residents as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, recreation and culture, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Vassar conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **Reporting Entity:**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

**Discretely Presented Component Units** - The component units column in the government-wide financial statements includes the financial data of the City's two component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

***Economic Development Corporation*** - The members of the governing board of the Economic Development Corporation are appointed by the City Council.

***Downtown Development Authority*** - The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### *Government-wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City’s net assets resulting from current year activities.

### *Fund Financial Statements*

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.



## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The City reports the following major governmental funds:

**General Fund** – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The City reports the following major enterprise funds:

**Sewer Fund** – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

**Water Fund** – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

### Assets, Liabilities, and Equity:

**Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools, if any, to be cash equivalents.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

***Restricted Assets*** – Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

***Receivables and Payables*** – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

***Inventories and Prepaid Expenses*** – Inventories are valued at cost, on a first-in, first-out basis. Inventories of some materials of governmental funds are recorded as expenditures when consumed rather than when purchased, but the majority are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

***Capital Assets*** – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$1,500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after July 1, 2003. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Infrastructure	20-50 years
Vehicles	3-25 years
Furniture and other equipment	3-15 years

***Compensated Absences*** – It is the City’s policy to permit employees to accumulate earned but unused sick days. Depending on whether the employee is union, non-union, full-time or part-time and on hire date, the employee can accumulate from 45 to 180 sick days. Upon retirement or leaving the employment of the City, union employees are paid for one half of their accumulated days, while non-union employees are paid for all of their accumulated days, subject to certain limitations. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual’s employment has terminated as of year end.

***Long-term Obligations*** – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

***Fund Equity*** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

### Property Taxes:

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied on July 1 and are due without penalty on or before July 31. The City bills and collects its own property taxes as well as those of Vassar Public Schools, Tuscola Intermediate School District and Tuscola County. Collections of these taxes and remittance of them to the entities are accounted for in the tax collection agency fund. City property tax revenues are recognized in the general fund. The delinquent real property taxes of the City are purchased by Tuscola County.

The 2005 taxable valuation of the City totaled \$50,919,996, on which ad valorem taxes levied consisted of 17.5000 mills for the City’s operating purposes.

The City also receives road taxes levied by Tuscola County.

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## NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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### Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first Council meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund and Special Revenue Funds.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency and Internal Service Funds.
5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund budget as originally adopted and amended by the City Council is included in the required supplemental information.
6. All annual appropriations lapse at fiscal year end.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### **Excess of Expenditures over Appropriations in Budgeted Funds:**

During the year, the City did not incur expenditures that were materially in excess of the amounts budgeted.

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### **NOTE 3: DEPOSITS AND INVESTMENTS**

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Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

#### **Custodial Credit Risk of Bank Deposits:**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At year-end, the City had \$3,445,583 (including the component units) of bank deposits (certificates of deposit, checking, and savings accounts), of which \$782,554 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

At year-end, the City had no investments.

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### **NOTE 4: RESTRICTED ASSETS AND BOND RESERVES**

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The authorizing ordinance for the 1998 Refunding Bonds requires the establishment and maintenance of various reserve funds as follows:

***Operation and Maintenance Fund*** - The City is required to set aside a sum sufficient to provide for the payment of the next month's administration and operation expenses.

***Bond and Interest Redemption Fund*** - The City is required to set aside a sum sufficient to provide for the payment of the current bond principal and interest payment less accrued interest available in the Redemption Fund.

***Replacement Fund*** - The City is required to set aside money in a Replacement Fund, as the Council may deem advisable.

***Improvement Fund*** - The City is required to set aside money in an Improvement Fund, as the Council may deem advisable.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

The official statement for the 1998 Refunding Bonds states the following:

**Bond Reserve Account:** Upon the issuance of the Bonds, the bond reserve account established with respect to the Refunded Bonds (the "Bond Reserve Account") will be equal to the lesser of (1) the maximum annual debt service due on the Bonds, (2) 125% of the average annual debt service requirements on the Bonds, or (3) 10% of the principal amount of the Bonds. Except as provided in the Ordinance, the monies credited to the Bond Reserve Account shall be used solely for the payment of the principal and interest on the Bonds as to which there would otherwise be a default. If at any time it shall be necessary to use monies credited to the Bond Reserve Account for such payment, then the monies so used shall be replaced from the Net Revenues first received thereafter which are not required for current principal and interest requirements. If Additional Bonds from time to time are issued, each ordinance authorizing the Additional Bonds shall provide for additional deposits to the Bond Reserve Account to be made in an amount that will result in the Bond Reserve Account being equal to the lesser of (1), (2), or (3) above after issuance of the Additional Bonds.

As of June 30, 2006 the City has set aside sufficient amounts as follows:

	<i>Business-type Activities</i>		
	<i>Sewer</i>	<i>Water</i>	<i>Total</i>
Restricted cash and cash equivalents:			
Bond reserve	\$ 108,605	\$ 83,970	\$ 192,575
Bond and interest redemption	114	1,311	1,425
Replacement reserve	17,077	-	17,077
	<u>\$ 125,796</u>	<u>\$ 85,281</u>	<u>\$ 211,077</u>

The required minimum amount for the bond reserve is 125% of the average annual debt service requirement. The total bond reserve amount was deposited upon issuance of the bonds. The City has sufficient assets in both funds to fund the reserves.

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## NOTE 5: CAPITAL ASSETS

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Capital assets activity of the City's governmental and business-type activities at June 30, 2006 was as follows:

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2006</u>
<b>Governmental activities:</b>				
Nondepreciable capital assets				
Land	\$ 523,500	\$ 3,169	\$ -	\$ 526,669
Depreciable capital assets				
Buildings and improvements	1,276,440	-	-	1,276,440
Furniture and equipment	1,224,270	17,708	111,040	1,130,938
Infrastructure	1,470,444	2,395	-	1,472,839
Vehicles	674,111	56,422	-	730,533
Total depreciable capital assets	4,645,265	76,525	111,040	4,610,750
Accumulated depreciation	(1,682,978)	(264,080)	105,846	(1,841,212)
Depreciable capital assets, net	2,962,287	(187,555)	216,886	2,769,538
Governmental activities, capital assets, net	<u>\$ 3,485,787</u>	<u>\$ (184,386)</u>	<u>\$ 216,886</u>	<u>\$ 3,296,207</u>
<b>Business-type activities:</b>				
Nondepreciable capital assets				
Land	\$ 43,009	\$ -	\$ -	\$ 43,009
Depreciable capital assets				
Equipment	490,958	3,850	-	494,808
Land improvements	32,637	-	-	32,637
Sewer mains	1,223,884	-	-	1,223,884
Sewer treatment plant	7,721,379	-	-	7,721,379
Water buildings and tower	518,952	-	-	518,952
Water mains	2,046,120	-	-	2,046,120
Total depreciable capital assets	12,033,930	3,850	-	12,037,780
Accumulated depreciation	(5,045,117)	(283,462)	-	(5,328,579)
Depreciable capital assets, net	6,988,813	(279,612)	-	6,709,201
Business-type activities, capital assets, net	<u>\$ 7,031,822</u>	<u>\$ (279,612)</u>	<u>\$ -</u>	<u>\$ 6,752,210</u>
<b>Component units:</b>				
Nondepreciable capital assets				
Land	\$ 44,500	\$ 1,601	\$ -	\$ 46,101
Depreciable capital assets				
Building and improvements	-	79,845	-	79,845
Total depreciable capital assets	-	79,845	-	79,845
Accumulated depreciation	-	-	-	-
Depreciable capital assets, net	-	79,845	-	79,845
Component units, capital assets, net	<u>\$ 44,500</u>	<u>\$ 81,446</u>	<u>\$ -</u>	<u>\$ 125,946</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Depreciation expense was charged to programs of the governmental and business-type activities as follows:

***Governmental activities:***

General government	\$	121,151
Public safety		83,354
Public works		24,111
Recreation and culture		<u>35,464</u>
Total governmental activities	\$	<u>264,080</u>

***Business-type activities:***

Sewer	\$	228,287
Water		<u>55,175</u>
Total business-type activities	\$	<u>283,462</u>

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## NOTE 6: DEFERRED REVENUE

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Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At year end, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Personal property taxes	\$ 19,733	\$ -
Special assessments	4,238	-
Notes	<u>126,550</u>	<u>-</u>
Total	<u>\$ 150,521</u>	<u>\$ -</u>

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## NOTE 7: LONG-TERM LIABILITIES

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The City may issue bonds, loans, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.

# CITY OF VASSAR

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Long-term liabilities at June 30, 2006 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Payments</u>	<u>Original Issue Amount</u>	<u>Balance at Year-End</u>
<b><u>Governmental Activities</u></b>					
<b><i>Notes:</i></b>					
Rural Development - Fire truck	9/01/05-9/01/19	4.75%	\$6,000-8,700	\$ 111,700	\$ 105,700
<b><i>Agreements:</i></b>					
Installment purchase - Expedition	4/16/05-4/16/07	5.7461%	6,618-7,400	27,274	7,400
Installment purchase - Street Sweeper	10/28/05-10/28/10	3.30%	24,945-29,434	162,800	137,848
Installment purchase - Crown Victorias (2)	8/5/05-8/5/07	6.00%	15,690-16,632	47,126	30,494
<b><u>Business-type Activities</u></b>					
<b><i>Revenue Refunding Bonds:</i></b>					
1998 Series - Water and Sewer Systems					
Revenue Refunding Bonds	4/1/05-4/1/27	4.6-5.25%	45,000-180,000	2,775,000	1,615,000

The following is a summary of long-term liabilities transactions for the year ended June 30, 2006:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2006</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Agreements and Notes					
Installment purchase-Crown Victorias	\$ -	\$ 47,126	\$ (16,632)	\$ 30,494	\$ 14,803
Installment purchase-Expedition	14,398	-	(6,998)	7,400	7,400
Installment purchase-Street sweeper	162,800	-	(24,952)	137,848	25,780
Rural Development note-Fire truck	111,700	-	(6,000)	105,700	7,000
Compensated Absences	41,890	6,494	(2,469)	45,915	-
Total governmental activities					
- long-term liabilities	<u>\$ 330,788</u>	<u>\$ 53,620</u>	<u>\$ (57,051)</u>	<u>\$ 327,357</u>	<u>\$ 54,983</u>
<b>Business-type activities:</b>					
Revenue Refunding Bonds					
1998 Issue	\$ 1,775,000	\$ -	\$ (160,000)	\$ 1,615,000	\$ 175,000
Compensated Absences	22,973	3,410	-	26,383	-
Total business-type activities					
- long-term liabilities	<u>\$ 1,797,973</u>	<u>\$ 3,410</u>	<u>\$ (160,000)</u>	<u>\$ 1,641,383</u>	<u>\$ 175,000</u>



## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Annual debt service requirements to maturity for all outstanding debt (excluding compensated absences payable) as of June 30, 2006 are as follows:

<i>Year Ended</i>	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2007	\$ 54,983	\$ 11,729	\$ 66,712	\$ 175,000	\$ 80,832	\$ 255,832
2008	49,335	9,218	58,553	170,000	72,783	242,783
2009	34,537	7,052	41,589	170,000	64,792	234,792
2010	35,459	5,797	41,256	180,000	56,633	236,633
2011	36,428	4,496	40,924	50,000	47,812	97,812
2012-2016	38,000	12,421	50,421	250,000	200,625	450,625
2017-2021	32,700	2,949	35,649	225,000	138,956	363,956
2022-2026	-	-	-	330,000	68,513	398,513
2027	-	-	-	65,000	3,412	68,412
	<u>\$ 281,442</u>	<u>\$ 53,662</u>	<u>\$ 335,104</u>	<u>\$ 1,615,000</u>	<u>\$ 734,358</u>	<u>\$ 2,349,358</u>

### NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total Primary Government</i>	<i>Component Units</i>
<b>Receivables:</b>				
Personal property taxes	\$ 19,733	\$ -	\$ 19,733	\$ -
Accounts	25,915	93,559	119,474	-
Special assessments	4,238	44,629	48,867	-
Notes	126,550	-	126,550	33,849
Accrued interest	7,074	7,367	14,441	-
Intergovernmental	161,585	-	161,585	-
Total receivables	<u>\$ 345,095</u>	<u>\$ 145,555</u>	<u>\$ 490,650</u>	<u>\$ 33,849</u>
<b>Accounts payable and accrued expenses:</b>				
Accounts	\$ 79,267	\$ 22,407	\$ 101,674	\$ 26,960
Interest	6,518	20,208	26,726	-
Intergovernmental	1,722	-	1,722	-
Total accounts payable and accrued expenses	<u>\$ 87,507</u>	<u>\$ 42,615</u>	<u>\$ 130,122</u>	<u>\$ 26,960</u>

# CITY OF VASSAR

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## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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### NOTE 9: INTERFUND BALANCES AND TRANSFERS

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The composition of interfund receivable and payable balances at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Cemetery Operating Fund	Cemetery Perpetual Care Fund	<u>\$ 1,000</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers reported in the fund statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	
	Major Street Fund	\$ 7,000
	Local Street Fund	75,000
	Fire Fund	42,750
	Cemetery Operating Fund	24,183
	Band Fund	2,500
	DPW Park Maintenance Fund	129,884
	Parks and Recreation Fund	37,750
	Equipment Replacement Fund	<u>11,500</u> \$ 330,567
Nonmajor Governmental Funds		
Equipment Replacement Fund	Sewer Fund	12,058
Nonmajor Governmental Funds	Nonmajor Governmental Funds	
Cemetery Perpetual Care Fund	Cemetery Operating Fund	<u>4,143</u>
	Total	<u>\$ 346,768</u>

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### NOTE 10: RISK MANAGEMENT

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The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

The City manages its workers' compensation insurance by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City obtains its other insurance coverage through a commercial insurance company.

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### NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

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#### Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

**Plan Description** – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's management and personnel policy. The required employee contribution rates and the City's actuarially determined rates for the fiscal year ended June 30, 2006 were as follows:

<i><u>Valuation Division</u></i>	<i><u>Employer Contribution Rate</u></i>	<i><u>Employee Contribution Rate</u></i>
General - Non-Union	11.43%	4.70%
Police - Non-Union	14.69%	4.80%
General - Union	6.84%	4.70%
Clerical - Union	10.47%	4.70%
Police - POAM	10.63%	4.80%

**Annual Pension Costs** – For year ended June 30, 2006, the City's annual pension cost of \$92,416 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Three year trend information as of June 30, follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual pension cost	\$ 92,416	\$ 88,867	\$ 45,550
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

### Post Employment Benefits:

In addition to the pension benefits described above, the City has a policy of paying the health insurance of all department heads upon retirement that had obtained twenty years of service. This benefit is payable until death. Currently, there are four retirees eligible for and receiving this benefit. The City is using a pay-as-you-go method of funding this benefit.

### Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

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## NOTE 12: FUND EQUITY

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Specific reservations on fund equity include:

***Reserved for inventory*** – This reserve was created to indicate that the portion of fund balance represented by inventory is not available for appropriation and expenditure.

***Reserved for prepaid expenditures*** – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

***Reserved for nonexpendable cemetery principal*** – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

Specific designations on fund equity include:

***Designated for accumulated sick leave*** – This designation was created to indicate funds set aside to cover payment of accumulated sick leave.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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### NOTE 13: COMPONENT UNITS REPORTING

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A condensed statement of net assets for each of the discretely presented component units is shown below. The statement of activities is included in the government-wide financial statements.

	<i>Economic Development Corporation</i>	<i>Downtown Development Authority</i>	<i>Total</i>
<b>Assets:</b>			
Current and other assets	\$ 52,561	\$ 57,593	\$ 110,154
Capital assets	<u>38,000</u>	<u>87,946</u>	<u>125,946</u>
Total assets	<u>90,561</u>	<u>145,539</u>	<u>236,100</u>
<b>Liabilities:</b>			
Other liabilities	<u>4,693</u>	<u>22,267</u>	<u>26,960</u>
Total liabilities	<u>4,693</u>	<u>22,267</u>	<u>26,960</u>
<b>Net assets:</b>			
Invested in capital assets	38,000	87,946	125,946
Unrestricted	<u>47,868</u>	<u>35,326</u>	<u>83,194</u>
Total net assets	<u>\$ 85,868</u>	<u>\$ 123,272</u>	<u>\$ 209,140</u>

***REQUIRED SUPPLEMENTAL INFORMATION***

**SCHEDULE OF PENSION PLAN  
FUNDING PROGRESS**

Year Ended June 30, 2006

<i>Actuarial Valuation Date</i>	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>12/31/2003</u>
Actuarial Value of Assets	\$ 3,888,727	\$ 3,666,073	\$ 3,525,381
Actuarial Accrued Liability (AAL)	4,697,685	4,323,504	3,925,038
Unfunded AAL (UAAL)	808,958	657,431	399,657
Funded Ratio	83%	85%	90%
Covered Payroll	1,001,251	918,331	914,279
UAAL as a percentage of covered payroll	81%	72%	44%

# CITY OF VASSAR

## GENERAL FUND

### BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
<b>Revenues:</b>				
Property taxes	\$ 887,206	\$ 882,482	\$ 882,508	\$ 26
Licenses and permits	9,650	10,553	10,553	-
Federal grants	10,000	-	-	-
State grants	380,979	374,328	374,328	-
Contributions from other units	4,860	4,860	4,860	-
Charges for services	185,818	207,627	208,592	965
Fines and forfeits	44,000	13,013	13,013	-
Interest and rents	175,600	227,907	227,906	(1)
Other revenue	93,501	89,537	89,538	1
Total revenues	1,791,614	1,810,307	1,811,298	991
<b>Expenditures:</b>				
Current				
General government	514,675	552,521	552,521	-
Public safety	602,495	569,144	569,144	-
Public works	247,608	251,021	251,021	-
Health and welfare	22,584	22,584	22,584	-
Community and economic development	1,500	8,209	8,209	-
Recreation and culture	-	11,000	11,000	-
Other	22,307	17,012	17,012	-
Capital outlay	69,074	71,063	71,063	-
Debt service				
Principal	-	48,582	48,582	-
Interest and fees	-	6,274	6,274	-
Total expenditures	1,480,243	1,557,410	1,557,410	-
Excess (deficiency) of revenues over expenditures	311,371	252,897	253,888	991
<b>Other financing sources (uses):</b>				
Proceeds from capital lease	-	47,126	47,126	-
Transfers out	(311,679)	(330,567)	(330,567)	-
Total other financing sources (uses)	(311,679)	(283,441)	(283,441)	-
Net change in fund balance	(308)	(30,544)	(29,553)	991
Fund balance, beginning of year	561,524	561,524	561,524	-
Fund balance, end of year	\$ 561,216	\$ 530,980	\$ 531,971	\$ 991



***OTHER SUPPLEMENTAL INFORMATION***

# CITY OF VASSAR

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## GENERAL FUND

### DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2006

#### Revenues:

##### *Current taxes:*

Property taxes	\$ 843,807
Administration fees and penalties and interest	37,159
Payment in lieu of taxes	<u>1,542</u>
	<u>882,508</u>

##### *Licenses and permits:*

Business licenses and permits	2,990
CATV franchise fees	<u>7,563</u>
	<u>10,553</u>

##### *State grants:*

Liquor license fees	1,727
State revenue sharing - sales tax	370,961
Police grant	<u>1,640</u>
	<u>374,328</u>

##### *Contribution from other units:*

Bullard Sanford Memorial Library - administration charges	<u>4,860</u>
	<u>4,860</u>

##### *Charges for services:*

Refuse collection fees	99,695
Ambulance	22,869
Police services and reports	3,174
Other	30,354
Charges to other funds	<u>52,500</u>
	<u>208,592</u>

##### *Fines and forfeitures:*

Ordinance fines	<u>13,013</u>
	<u>13,013</u>

##### *Interest and rents:*

Interest	29,471
Equipment rent	188,235
Rents	<u>10,200</u>
	<u>227,906</u>

##### *Other revenue:*

Contributions and donations	730
Reimbursements	63,382
Loan repayments	14,137
Other	<u>11,289</u>
	<u>89,538</u>

Total revenues	<u>1,811,298</u>
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#### Other Financing Sources:

Proceeds from capital lease	<u>47,126</u>
	<u>47,126</u>

Total revenues and other financing sources	<u>\$ 1,858,424</u>
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# CITY OF VASSAR

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2006

**Expenditures:**

***General Government:***

*Mayor and Council:*

Personnel	\$ 2,600
Conference and travel	991
Printing and publishing	4,405
	<u>7,996</u>

*Manager:*

Personnel	69,160
Fringe benefits	29,005
Supplies	119
Dues and subscriptions	300
Conference and travel	4,305
	<u>102,889</u>

*Clerk:*

Personnel	54,102
Fringe benefits	11,081
Supplies	471
Conference and travel	1,806
	<u>67,460</u>

*Audit:*

Contracted services	<u>9,765</u>
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*Information Technology:*

Contracted services	15,358
Repairs and maintenance	7,270
	<u>22,628</u>

*Treasurer:*

Personnel	74,730
Fringe benefits	37,654
Contracted services	350
Dues and subscriptions	185
Conference and travel	520
	<u>113,439</u>

*Assessor:*

Personnel	600
Contracted services	9,000
Printing and publishing	238
Other	375
	<u>10,213</u>

# CITY OF VASSAR

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2006

**Expenditures (continued):**

**General Government (continued):**

*Elections:*

Supplies	\$ 897
Contracted services	1,418
	<u>2,315</u>

*Buildings and Grounds:*

Personnel	76,121
Fringe benefits	17,042
Supplies	20,112
Contracted services	6,521
Communication	8,938
Dues and subscriptions	5,311
Conference and travel	836
Utilities	16,640
Repairs and maintenance	22,266
Equipment rental	3,342
Other	72
	<u>177,201</u>

*Attorney:*

Contracted services	<u>33,297</u>
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*Community Promotion and Marketing:*

Supplies	4,968
Contracted services	350
	<u>5,318</u>

Total general government	<u>552,521</u>
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**Public Safety:**

*Police:*

Personnel	365,145
Fringe benefits	145,956
Supplies	23,917
Contracted services	7,093
Communication	5,912
Conference and travel	6,352
Insurance	6,596
Repairs and maintenance	8,017
Equipment rental	56
Other	100
	<u>569,144</u>

Total public safety	<u>569,144</u>
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# CITY OF VASSAR

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2006

**Expenditures (continued):**

***Public Works:***

*Department of Public Works:*

Personnel	\$ 21,510
Fringe benefits	4,720
Supplies	38,737
Contracted services	3,595
Repairs and maintenance	14,722
Equipment rental	2,627
	<u>85,911</u>

*Sidewalks:*

Personnel	725
Fringe benefits	55
Supplies	42
Repairs and maintenance	2,395
Equipment rental	751
	<u>3,968</u>

*Street Lighting:*

Utilities	<u>56,156</u>
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*Refuse:*

Contracted services	<u>96,432</u>
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*Parking Lot:*

Personnel	2,070
Fringe benefits	158
Supplies	162
Utilities	3,346
Equipment rental	2,818
	<u>8,554</u>

Total public works	<u>251,021</u>
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***Community and Economic Development:***

*Economic Development:*

Personnel	3,408
Fringe benefits	260
Contracted services	2,500
Conference and travel	160
Equipment rental	1,352
Other	529
	<u>8,209</u>

Total community and economic development	<u>8,209</u>
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# CITY OF VASSAR

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2006

**Expenditures (continued):**

***Health and Welfare:***

*Ambulance:*

Contracted services	\$ 22,584
Total health and welfare	<u>22,584</u>

***Recreation and Culture:***

*Historical Program:*

Other	<u>11,000</u>
Total recreation and culture	<u>11,000</u>

***Other:***

Insurance and bonds	14,203
Fringe benefits	2,806
Tax tribunal refunds	<u>3</u>
	<u>17,012</u>
Total other	<u>17,012</u>

***Capital Outlay:***

General government	4,633
Public safety	56,337
Community and economic development	<u>10,093</u>
	<u>71,063</u>
Total capital outlay	<u>71,063</u>

***Debt Service:***

Principal	48,582
Interest and fees	<u>6,274</u>
	<u>54,856</u>
Total debt service	<u>54,856</u>

Total expenditures	<u>1,557,410</u>
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**Other Financing Uses:**

Transfers to other funds	<u>330,567</u>
	<u>330,567</u>

Total expenditures and other financing uses	<u>\$ 1,887,977</u>
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# CITY OF VASSAR

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## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING BALANCE SHEET

June 30, 2006

	<i>Special Revenue Funds</i>			
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Highway Fund</i>	<i>Fire Fund</i>
<b>Assets:</b>				
Cash and cash equivalents	\$ 153,844	\$ 269,230	\$ (1,712)	\$ 151,208
Accounts receivable	-	-	-	-
Special assessments receivable	-	4,238	-	-
Notes receivable	-	-	-	66,319
Accrued interest receivable	-	3,877	-	1,508
Due from other governmental units	24,671	9,627	5,889	240
Due from other funds	-	-	-	-
Prepaid expenditures	3,143	3,143	-	299
Total assets	<u>\$ 181,658</u>	<u>\$ 290,115</u>	<u>\$ 4,177</u>	<u>\$ 219,574</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 6,956	\$ 1,369	\$ 289	\$ 9,149
Due to other funds	-	-	-	-
Deferred revenue	-	4,238	-	66,309
Total liabilities	<u>6,956</u>	<u>5,607</u>	<u>289</u>	<u>75,458</u>
<b>Fund balances:</b>				
Reserved for:				
Prepaid expenditures	3,143	3,143	-	299
Nonexpendable cemetery principal	-	-	-	-
Unreserved:				
Special revenue funds	<u>171,559</u>	<u>281,365</u>	<u>3,888</u>	<u>143,807</u>
Total fund balances	<u>174,702</u>	<u>284,508</u>	<u>3,888</u>	<u>144,106</u>
Total liabilities and fund balances	<u>\$ 181,658</u>	<u>\$ 290,115</u>	<u>\$ 4,177</u>	<u>\$ 219,564</u>

*Special Revenue Funds*

<i>Cemetery Operating Fund</i>	<i>Band Fund</i>	<i>DPW Park Maintenance Fund</i>	<i>Parks and Recreation Fund</i>	<i>Street Lighting Fund</i>	<i>Drug Law Enforcement Fund</i>	<i>Equipment Replacement Fund</i>	<i>Subtotal Nonmajor Governmental Funds</i>
\$ 17,099	\$ 9,156	\$ 3,135	\$ 26,026	\$ 2,268	\$ 477	\$ 35,271	\$ 666,002
1,405	-	67	-	-	-	-	1,472
-	-	-	-	-	-	-	4,238
-	-	-	-	-	-	-	66,309
-	-	-	-	-	-	-	5,385
-	-	-	-	-	-	-	40,427
1,000	-	-	-	-	-	-	1,000
96	-	-	-	-	-	-	6,906
<u>\$ 19,600</u>	<u>\$ 9,156</u>	<u>\$ 3,202</u>	<u>\$ 26,026</u>	<u>\$ 2,268</u>	<u>\$ 477</u>	<u>\$ 35,271</u>	<u>\$ 791,739</u>
\$ 168	\$ 968	\$ 2,950	\$ 3,030	\$ -	\$ -	\$ -	\$ 24,879
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	70,547
<u>168</u>	<u>968</u>	<u>2,950</u>	<u>3,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,426</u>
96	-	225	-	-	-	-	6,906
-	-	-	-	-	-	-	-
<u>19,336</u>	<u>8,188</u>	<u>252</u>	<u>22,996</u>	<u>2,268</u>	<u>477</u>	<u>35,271</u>	<u>689,407</u>
<u>19,432</u>	<u>8,188</u>	<u>477</u>	<u>22,996</u>	<u>2,268</u>	<u>477</u>	<u>35,271</u>	<u>696,313</u>
<u>\$ 19,600</u>	<u>\$ 9,156</u>	<u>\$ 3,427</u>	<u>\$ 26,026</u>	<u>\$ 2,268</u>	<u>\$ 477</u>	<u>\$ 35,271</u>	<u>\$ 791,739</u>

continued



# CITY OF VASSAR

## NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET

June 30, 2006

	<i>Special Revenue Fund</i>	<i>Permanent Fund</i>	<i>Total Nonmajor Governmental Funds</i>
	<i>DDA Loan Revolving Fund</i>	<i>Cemetery Perpetual Care Fund</i>	
<b>Assets:</b>			
Cash and cash equivalents	\$ 27,285	\$ 116,578	\$ 809,865
Accounts receivable	-	150	1,622
Special assessments receivable	-	-	4,238
Notes receivable	17,683	-	83,992
Accrued interest receivable	-	181	5,566
Due from other governmental units	-	-	40,427
Due from other funds	-	-	1,000
Prepaid expenditures	-	-	6,906
Total assets	<u>\$ 44,968</u>	<u>\$ 116,909</u>	<u>\$ 953,616</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ -	\$ 24,879
Due to other funds	-	1,000	1,000
Deferred revenue	17,683	-	88,230
Total liabilities	<u>17,683</u>	<u>1,000</u>	<u>114,109</u>
<b>Fund balances:</b>			
Reserved for:			
Prepaid expenditures	-	-	6,906
Nonexpendable cemetery principal	-	115,909	115,909
Unreserved:			
Special revenue funds	<u>27,285</u>	<u>-</u>	<u>716,692</u>
Total fund balances	<u>27,285</u>	<u>115,909</u>	<u>839,507</u>
Total liabilities and fund balances	<u>\$ 44,968</u>	<u>\$ 116,909</u>	<u>\$ 953,616</u>

# CITY OF VASSAR

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	<i>Special Revenue Funds</i>			
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Highway Fund</i>	<i>Fire Fund</i>
<b>Revenues:</b>				
Property taxes	\$ 48,562	\$ 24,161	\$ -	\$ -
State grants	156,513	60,799	36,991	-
Contributions from other units	-	-	-	84,755
Charges for services	-	-	-	40
Interest and rents	3,602	10,300	14	5,041
Other revenue	201	538	-	630
Total revenues	<u>208,878</u>	<u>95,798</u>	<u>37,005</u>	<u>90,466</u>
<b>Expenditures:</b>				
Current				
General government	-	-	-	-
Public safety	-	-	-	107,145
Public works	173,345	203,661	34,774	-
Recreation and culture	-	-	-	-
Capital outlay	1,140	1,140	-	5,625
Debt service				
Principal	-	-	-	6,000
Interest and fees	-	-	-	5,163
Total expenditures	<u>174,485</u>	<u>204,801</u>	<u>34,774</u>	<u>123,933</u>
Excess (deficiency) of revenues over expenditures	<u>34,393</u>	<u>(109,003)</u>	<u>2,231</u>	<u>(33,467)</u>
<b>Other financing sources (uses):</b>				
Transfers in	7,000	75,000	-	42,750
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>7,000</u>	<u>75,000</u>	<u>-</u>	<u>42,750</u>
Net change in fund balance	41,393	(34,003)	2,231	9,283
Fund balances, beginning of year	<u>133,309</u>	<u>318,511</u>	<u>1,657</u>	<u>134,823</u>
Fund balances, end of year	<u>\$ 174,702</u>	<u>\$ 284,508</u>	<u>\$ 3,888</u>	<u>\$ 144,106</u>

<i>Special Revenue Funds</i>							<i>Subtotal Nonmajor Governmental Funds</i>
<i>Cemetery Operating Fund</i>	<i>Band Fund</i>	<i>DPW Park Maintenance Fund</i>	<i>Parks and Recreation Fund</i>	<i>Street Lighting Fund</i>	<i>Drug Law Enforcement Fund</i>	<i>Equipment Replacement Fund</i>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72,723
-	-	-	-	-	-	-	254,303
-	-	-	-	-	-	-	84,755
16,113	-	815	27,896	-	-	-	44,864
630	277	16,183	722	177	17	1,285	38,248
7,550	-	365	22,051	6,893	-	8,169	46,397
<u>24,293</u>	<u>277</u>	<u>17,363</u>	<u>50,669</u>	<u>7,070</u>	<u>17</u>	<u>9,454</u>	<u>541,290</u>
58,271	-	-	-	-	-	10,787	69,058
-	-	-	-	-	-	-	107,145
-	-	-	-	6,893	-	-	418,673
-	2,104	147,848	85,220	-	-	-	235,172
-	-	-	-	-	-	-	7,905
-	-	-	-	-	-	-	6,000
-	-	-	-	-	-	-	5,163
<u>58,271</u>	<u>2,104</u>	<u>147,848</u>	<u>85,220</u>	<u>6,893</u>	<u>-</u>	<u>10,787</u>	<u>849,116</u>
<u>(33,978)</u>	<u>(1,827)</u>	<u>(130,485)</u>	<u>(34,551)</u>	<u>177</u>	<u>17</u>	<u>(1,333)</u>	<u>(307,826)</u>
28,326	2,500	129,884	37,750	-	-	11,500	334,710
-	-	-	-	-	-	(12,058)	(12,058)
<u>28,326</u>	<u>2,500</u>	<u>129,884</u>	<u>37,750</u>	<u>-</u>	<u>-</u>	<u>(558)</u>	<u>322,652</u>
(5,652)	673	(601)	3,199	177	17	(1,891)	14,826
<u>25,084</u>	<u>7,515</u>	<u>1,078</u>	<u>19,797</u>	<u>2,091</u>	<u>460</u>	<u>37,162</u>	<u>681,487</u>
<u>\$ 19,432</u>	<u>\$ 8,188</u>	<u>\$ 477</u>	<u>\$ 22,996</u>	<u>\$ 2,268</u>	<u>\$ 477</u>	<u>\$ 35,271</u>	<u>\$ 696,313</u>

continued

# CITY OF VASSAR

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

Year Ended June 30, 2006

	<i>Special Revenue Fund</i>	<i>Permanent Fund</i>	
	<i>DDA Loan Revolving Fund</i>	<i>Cemetery Perpetual Care Fund</i>	<i>Total Nonmajor Governmental Funds</i>
<b>Revenues:</b>			
Property taxes	\$ -	\$ -	\$ 72,723
State grants	-	-	254,303
Contributions from other units	-	-	84,755
Charges for services	-	-	44,864
Interest and rents	946	4,175	43,369
Other revenue	2,709	1,750	50,856
Total revenues	3,655	5,925	550,870
<b>Expenditures:</b>			
Current			
General government	-	-	69,058
Public safety	-	-	107,145
Public works	-	-	418,673
Recreation and culture	-	-	235,172
Capital outlay	-	-	7,905
Debt service			
Principal	-	-	6,000
Interest and fees	-	-	5,163
Total expenditures	-	-	849,116
Excess (deficiency) of revenues over expenditures	3,655	5,925	(298,246)
<b>Other financing sources (uses):</b>			
Transfers in	-	-	334,710
Transfers out	-	(4,143)	(16,201)
Total other financing sources (uses)	-	(4,143)	318,509
Net change in fund balance	3,655	1,782	20,263
Fund balances, beginning of year	23,630	114,127	819,244
Fund balances, end of year	\$ 27,285	\$ 115,909	\$ 839,507

# CITY OF VASSAR

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## COMPONENT UNITS COMBINING BALANCE SHEET

June 30, 2006

	<i>Economic Development Corporation</i>	<i>Downtown Development Authority</i>	<i>Total Component Units</i>
<b>Assets:</b>			
Cash and cash equivalents	\$ 52,561	\$ 23,744	\$ 76,305
Notes receivable	-	33,849	33,849
Due from other funds	-	4,995	4,995
Total assets	<u>\$ 52,561</u>	<u>\$ 62,588</u>	<u>\$ 115,149</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 3,445	\$ 3,508	\$ 6,953
Due to primary government	1,248	18,759	20,007
Due to other funds	4,995	-	4,995
Deferred revenue	-	33,849	33,849
Total liabilities	<u>9,688</u>	<u>56,116</u>	<u>65,804</u>
<b>Fund balances:</b>			
Unreserved	<u>42,873</u>	<u>6,472</u>	<u>49,345</u>
Total fund balances	<u>42,873</u>	<u>6,472</u>	<u>49,345</u>
Total liabilities and fund balances	<u>\$ 52,561</u>	<u>\$ 62,588</u>	<u>\$ 115,149</u>

# CITY OF VASSAR

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## COMPONENT UNITS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	<i>Economic Development Corporation</i>	<i>Downtown Development Authority</i>	<i>Total Component Units</i>
<b>Revenues:</b>			
Property taxes	\$ 37,299	\$ 34,908	\$ 72,207
Interest and rents	1,117	402	1,519
Other revenue	<u>25,000</u>	<u>40,240</u>	<u>65,240</u>
Total revenues	<u>63,416</u>	<u>75,550</u>	<u>138,966</u>
<b>Expenditures:</b>			
Current			
Community and economic development	57,336	36,211	93,547
Capital outlay	<u>55,618</u>	<u>81,446</u>	<u>137,064</u>
Total expenditures	<u>112,954</u>	<u>117,657</u>	<u>230,611</u>
Net change in fund balance	(49,538)	(42,107)	(91,645)
Fund balances, beginning of year	<u>92,411</u>	<u>48,579</u>	<u>140,990</u>
Fund balances, end of year	<u><u>\$ 42,873</u></u>	<u><u>\$ 6,472</u></u>	<u><u>\$ 49,345</u></u>

# CITY OF VASSAR

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## FIDUCIARY FUNDS – TRUST FUNDS

### COMBINING STATEMENT OF NET ASSETS

June 30, 2006

	<i><b>Fred Lapratt Memorial Fund</b></i>	<i><b>Police Pride Fund</b></i>	<i><b>Local Government Education Fund</b></i>	<i><b>Total</b></i>
<b>Assets:</b>				
Cash and cash equivalents	\$ 2,621	\$ -	\$ 59	\$ 2,680
Total assets	<u>\$ 2,621</u>	<u>\$ -</u>	<u>\$ 59</u>	<u>\$ 2,680</u>
<b>Net Assets:</b>				
Held in trust	2,621	-	59	2,680
Total net assets	<u>\$ 2,621</u>	<u>\$ -</u>	<u>\$ 59</u>	<u>\$ 2,680</u>

# CITY OF VASSAR

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## FIDUCIARY FUNDS – TRUST FUNDS

### COMBINING STATEMENT OF CHANGES IN NETS ASSETS

Year Ended June 30, 2006

	<i><b>Fred Lapratt Memorial Fund</b></i>	<i><b>Police Pride Fund</b></i>	<i><b>Local Government Education Fund</b></i>	<i><b>Total</b></i>
<b>Additions:</b>				
Investment income	\$ 90	\$ 6	\$ 10	\$ 106
Total additions	90	6	10	106
<b>Deductions:</b>				
Supplies	-	-	225	225
Contributions to General Fund	-	180	-	180
Total deductions	-	180	225	405
Net increase (decrease)	90	(174)	(215)	(299)
Net assets held in trust, beginning of year	2,531	174	274	2,979
Net assets held in trust, end of year	<u>\$ 2,621</u>	<u>\$ -</u>	<u>\$ 59</u>	<u>\$ 2,680</u>



# CITY OF VASSAR

## FIDUCIARY FUNDS – AGENCY FUNDS

### COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2006

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
<b><u>Agency Fund</u></b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 16,922	\$ 2,020,419	\$ 2,015,355	\$ 21,986
Accounts receivable	48	-	48	-
Total assets	<u>\$ 16,970</u>	<u>\$ 2,020,419</u>	<u>\$ 2,015,403</u>	<u>\$ 21,986</u>
<b>Liabilities:</b>				
Accounts payable	<u>\$ 16,970</u>	<u>\$ 2,020,419</u>	<u>\$ 2,015,403</u>	<u>\$ 21,986</u>
<b><u>Tax Fund</u></b>				
<b>Assets:</b>				
Cash and cash equivalents	<u>\$ 474</u>	<u>\$ 1,059,942</u>	<u>\$ 1,059,942</u>	<u>\$ 474</u>
<b>Liabilities:</b>				
Accounts payable	\$ 474	\$ 8,063	\$ 8,063	\$ 474
Due to other funds	-	10,415	10,415	-
Due to other governmental units	-	1,041,464	1,041,464	-
Total liabilities	<u>\$ 474</u>	<u>\$ 1,059,942</u>	<u>\$ 1,059,942</u>	<u>\$ 474</u>
<b><u>Total Agency Funds</u></b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 17,396	\$ 3,080,361	\$ 3,075,297	\$ 22,460
Accounts receivable	48	-	48	-
Total assets	<u>\$ 17,444</u>	<u>\$ 3,080,361</u>	<u>\$ 3,075,345</u>	<u>\$ 22,460</u>
<b>Liabilities:</b>				
Accounts payable	\$ 17,444	\$ 2,028,482	\$ 2,023,466	\$ 22,460
Due to other funds	-	10,415	10,415	-
Due to other governmental units	-	1,041,464	1,041,464	-
Total liabilities	<u>\$ 17,444</u>	<u>\$ 3,080,361</u>	<u>\$ 3,075,345</u>	<u>\$ 22,460</u>

# CITY OF VASSAR

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## GOVERNMENTAL ACTIVITIES SCHEDULE OF INDEBTEDNESS

June 30, 2006

### INSTALLMENT PURCHASE AGREEMENT - 2002 FORD EXPEDITION

Issued dated April 16, 2003 in the amount of \$ 27,274

Less: Principal paid in prior years (12,876)  
Principal paid in current year (6,998)

Balance payable at June 30, 2006 \$ 7,400

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Interest Rate</u></i>	<i><u>Principal due</u></i> <i><u>April 16</u></i>	<i><u>Interest due</u></i> <i><u>April 16</u></i>	<i><u>Total</u></i> <i><u>Annual</u></i> <i><u>Requirement</u></i>
2007	5.7461%	\$ <u>7,400</u>	\$ <u>425</u>	\$ <u>7,825</u>
		\$ <u>7,400</u>	\$ <u>425</u>	\$ <u>7,825</u>

Note: The General Fund is obligated for this loan.

# CITY OF VASSAR

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

June 30, 2006

#### RURAL DEVELOPMENT LOAN - FIRE TRUCK

Issued dated September 20, 2004 in the amount of     \$     111,700

Less:                      Principal paid in prior years                      -  
                                Principal paid in current year                      (6,000)

Balance payable at June 30, 2006                      \$     105,700

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Interest Rate</u></i>	<i><u>Principal due</u></i> <i><u>September 1</u></i>	<i><u>Interest due</u></i> <i><u>September 1</u></i>	<i><u>Interest due</u></i> <i><u>March 1</u></i>	<i><u>Total</u></i> <i><u>Annual</u></i> <i><u>Requirement</u></i>
2007	4.75%	\$     7,000	\$     2,510	\$     2,344	\$     11,854
2008	4.75%	7,000	2,344	2,178	11,522
2009	4.75%	7,000	2,178	2,012	11,190
2010	4.75%	7,000	2,012	1,845	10,857
2011	4.75%	7,000	1,845	1,679	10,524
2012	4.75%	7,000	1,679	1,513	10,192
2013	4.75%	7,000	1,513	1,347	9,860
2014	4.75%	8,000	1,347	1,157	10,504
2015	4.75%	8,000	1,157	967	10,124
2016	4.75%	8,000	967	777	9,744
2017	4.75%	8,000	777	587	9,364
2018	4.75%	8,000	587	397	8,984
2019	4.75%	8,000	397	207	8,604
2020	4.75%	<u>8,700</u>	<u>-</u>	<u>-</u>	<u>8,700</u>
		<u>\$     105,700</u>	<u>\$     19,313</u>	<u>\$     17,010</u>	<u>\$     142,023</u>

Note: The Fire Fund is obligated for this loan.

# CITY OF VASSAR

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## GOVERNMENTAL ACTIVITIES SCHEDULE OF INDEBTEDNESS

June 30, 2006

### INSTALLMENT PURCHASE AGREEMENT - STREET SWEEPER

Issued dated October 28, 2004 in the amount of \$ 162,800

Less: Principal paid in prior years -  
Principal paid in current year (24,952)

Balance payable at June 30, 2006 \$ 137,848

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Interest Rate</u></i>	<i><u>Principal due</u></i> <i><u>October 28</u></i>	<i><u>Interest due</u></i> <i><u>October 28</u></i>	<i><u>Total</u></i> <i><u>Annual</u></i> <i><u>Requirement</u></i>
2007	3.30%	\$ 25,780	\$ 4,619	\$ 30,399
2008	3.30%	26,644	3,755	30,399
2009	3.30%	27,537	2,862	30,399
2010	3.30%	28,459	1,940	30,399
2011	3.30%	<u>29,428</u>	<u>971</u>	<u>30,399</u>
		<u>\$ 137,848</u>	<u>\$ 14,147</u>	<u>\$ 151,995</u>

Note: The General Fund is obligated for this loan.

### INSTALLMENT PURCHASE AGREEMENT - 2005 FORD CROWN VICTORIA POLICE CARS (2)

Issued dated August 5, 2005 in the amount of \$ 47,126

Less: Principal paid in prior years -  
Principal paid in current year (16,632)

Balance payable at June 30, 2006 \$ 30,494

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Interest Rate</u></i>	<i><u>Principal due</u></i> <i><u>August 5</u></i>	<i><u>Interest due</u></i> <i><u>August 5</u></i>	<i><u>Total</u></i> <i><u>Annual</u></i> <i><u>Requirement</u></i>
2007	6.00%	\$ 14,803	\$ 1,829	\$ 16,632
2008	6.00%	<u>15,691</u>	<u>941</u>	<u>16,632</u>
		<u>\$ 30,494</u>	<u>\$ 2,770</u>	<u>\$ 33,264</u>

# CITY OF VASSAR

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## *BUSINESS-TYPE ACTIVITIES* **SCHEDULE OF INDEBTEDNESS**

June 30, 2006

### **1998 SERIES - WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE REFUNDING BONDS**

Issued dated August 13, 1998 in the amount of       \$    2,775,000

Less:           Principal paid in prior years               (1,000,000)  
          Principal paid in current year               (160,000)

Balance payable at June 30, 2006                       \$   1,615,000

Balance payable as follows:

<i>Fiscal</i> <u><i>Year Ended</i></u>	<u><i>Interest Rate</i></u>	<u><i>Principal due</i></u>	<u><i>Interest due</i></u>	<u><i>Total Annual Requirement</i></u>
2007	4.600%	\$   175,000	\$     80,832	\$   255,832
2008	4.700%	170,000	72,783	242,783
2009	4.800%	170,000	64,792	234,792
2010	4.900%	180,000	56,633	236,633
2011	5.125%	50,000	47,812	97,812
2012	5.125%	50,000	45,250	95,250
2013	5.125%	50,000	42,688	92,688
2014	5.125%	50,000	40,125	90,125
2015	5.125%	50,000	37,562	87,562
2016	5.125%	50,000	35,000	85,000
2017	5.125%	45,000	32,438	77,438
2018	5.125%	45,000	30,131	75,131
2019	5.250%	45,000	27,825	72,825
2020	5.250%	45,000	25,462	70,462
2021	5.250%	45,000	23,100	68,100
2022	5.250%	70,000	20,738	90,738
2023	5.250%	65,000	17,062	82,062
2024	5.250%	65,000	13,650	78,650
2025	5.250%	65,000	10,238	75,238
2026	5.250%	65,000	6,825	71,825
2027	5.250%	<u>65,000</u>	<u>3,412</u>	<u>68,412</u>
		<u><u>\$   1,615,000</u></u>	<u><u>\$   734,358</u></u>	<u><u>\$   2,349,358</u></u>

Note: The Sewer Fund is obligated for 56.3964% and the Water Fund is obligated for 43.6036% of this debt.

Sewer Fund       \$     910,802  
Water Fund       704,198  
                  \$   1,615,000



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the City Council  
City of Vassar, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar, as of and for the year ended June 30, 2006, which collectively comprise the City of Vassar's basic financial statements and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Vassar's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Vassar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

*Berthiaume & Co.*

Berthiaume & Company  
Certified Public Accountants

September 21, 2006



September 21, 2006

To The City Council  
City of Vassar

We have audited the financial statements of the City of Vassar for the year ended June 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

#### Our Responsibility Under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of the City of Vassar in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

#### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Vassar are described in Note 1 to the financial statements. We noted no transactions entered into by the City of Vassar during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.



We have no significant issues, regarding these matters, to report to you at this time.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the City's financial statements and this communication of these matters does not affect our report on the financial statements, dated September 21, 2006.

Summary

We welcome any questions you may have regarding the foregoing.

Sincerely,

*Berthiaume & Co.*

Berthiaume & Company  
Certified Public Accountants